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Follow-up to and Implementation of the Outcome of the International Conference on Financing for Development

Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Report of the Secretary-General**

Summary

The present report, although self-standing, updates the comprehensive review of the implementation of the Monterrey Consensus included in the report of the Secretary-General to the High-level Dialogue on Financing for Development (A/58/216), held in New York on 29 and 30 October 2003, and also responds to General Assembly resolution 58/230. It should be read in conjunction with the reports of the Secretary-General on international financial system and development (A/59/218), on external debt crisis and development (A/59/219), on international trade and development (A/59/305), the note of the Secretary-General on innovative sources of financing for development (A/59/272) and the report of the Secretary-General of UNCTAD on World Commodity Trends and Prospects (A/59/304). It reflects uneven progress in achieving the goals set out in the Monterrey Consensus, suggesting that strengthening implementation efforts in all areas of the Consensus — national, international and systemic — continues to be essential. Thus, the recommendations contained in the previous report (A/58/216) remain valid today.

* A/59/150.

** The present report was prepared in consultation with the major institutional stakeholders in the financing for development process, and was submitted to Conference Services on 16 August 2004.

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I. Introduction

1. The present report responds to paragraph 72 of the Monterrey Consensus of the International Conference on Financing for Development, endorsed by the General Assembly in its resolution 56/210 B, in which the Secretary-General was requested to submit an annual report on follow-up efforts by all relevant stakeholders of the financing for development process, and to resolution 58/230, in which the Secretary-General was requested to submit an annual analytical assessment of the state of the implementation of the Monterrey Consensus, including the implementation of that resolution, to be prepared in full collaboration with the major institutional stakeholders. The report provides an account of initiatives and commitments undertaken by Governments and major institutional and non-institutional stakeholders since the previous report of the Secretary-General (A/58/216). It draws on inputs received from the major institutional stakeholders and has been prepared in consultation and collaboration with them. However, as in previous years, not all the ideas put forward necessarily represent the views of all those consulted, and the responsibility for the contents of the present report rests solely with the United Nations. Detailed information on the multifaceted activities carried out by stakeholders in follow-up to the Conference is posted and updated regularly on the financing for development web site at www.un.org/esa/ffd.

2. The Monterrey Consensus represented a compact among United Nations Member States recognizing that the actions in its several chapters to ensure financing for development be mutually consistent and reinforcing. However, to date, implementation has been uneven, and substantial improvements in coordinating development efforts remain necessary. It is now generally agreed that a doubling of official development assistance (ODA) flows from their 2001 levels would be the minimum required to achieve the Millennium Development Goals by 2015. It is also generally recognized that meeting these goals will deal merely with the symptoms of underdevelopment in the majority of Member States. Additional financing will be required to allow them to achieve debt sustainability and the stable growth required to support permanent increases in per capita incomes. While the majority of developing countries have taken important steps to improve their domestic environments in preparation for increased financing for growth, many remain disappointed with the results; the increase in financial flows has not been sufficient to ensure achievement of the Millennium Development Goals. Some have referred to this as the Monterrey "development deficit". Although developed countries have improved their official assistance to developing countries and many have set future target dates to achieve the goal of 0.7 per cent of gross national income (GNI), actual increases in net financial flows have been small in the overall context of declining low levels of private financial flows for foreign direct investment (FDI) and negative portfolio flows. While the renewed impetus to initiate the Doha work programme is to be welcomed, continued multilateral efforts will be required to ensure that its development dimension is fully achieved in the negotiation process. Finally, as has been recognized by Member States, actions to ensure progress in the area of systemic issues covered in the Monterrey Consensus, including the commitment to enhancing further the coherence and the consistency of the international monetary, financial and trading systems, are necessary to complement national development efforts.

II. Mobilizing domestic financial resources for development

3. An important number of developing countries have increased efforts to improve different aspects of governance, but with varying results across countries. While some regions and countries have made gains in attaining peace and security, in many cases through regional efforts, in a number of areas civil strife and military conflict persist or have intensified, creating serious obstacles to institutional reform and improved governance.

4. Progress has been made in developing participatory political systems, but results have been more modest in enhancing transparency and accountability in Government, implementing the rule of law and the control of corruption.[1] The United Nations Convention against Corruption was adopted by the General Assembly in its resolution 58/4 and opened for signature at a high-level political signing conference, held in Merida, Mexico, in December 2003. At the time of writing, there are 111 signatories and 4 parties to the Convention.[2] Regional cooperation initiatives, such as the African Peer Review Mechanism of the New Partnership for Africa's Development (NEPAD), which also deals with the above issues, have continued to be implemented.[3]

5. Many developing countries have continued to make progress in their efforts to formulate and implement domestic policies to improve fiscal management and the use of public resources in social expenditure and investment in development that are conducive to long-term economic and employment growth and poverty reduction, as called for in the Monterrey Consensus. Though results have been varied, many developing countries have continued to make gradual progress in public financial management reform via the adoption and improved implementation of medium-term fiscal frameworks to improve fiscal accountability and transparency. This has allowed the linkage between fiscal resources and development and poverty reduction goals to be strengthened. Some middle-income and a few low-income countries have been able to stabilize the delivery of social services and budget better for infrastructure spending. In these countries, recent experience indicates that implementation is a challenging and necessarily long-term process that demands a high level of management capacity.[4]

6. While countries have continued to make progress in improving macroeconomic policy management, most remain vulnerable to shocks from the global economy. The impact of the latest business cycle on developing countries has again underscored the limited capacity of many developing countries to conduct counter-cyclical monetary and fiscal policies to deal with domestic imbalances and the adverse impact of external shocks. Measures already taken to enhance macroeconomic management capacity include the improvement of public debt profiles, the establishment of national commodity and fiscal stabilization funds and reform and strengthening of the tax code and tax administration. In addition, policies that mitigate the adverse impact of short-term global economic conditions are important to ensuring longer-term policy objectives of strong and stable economic growth, sustained employment creation and poverty reduction. Overall policy effectiveness should thus be the objective of assistance programmes, and multilateral agreements and associated conditionalities.

7. Despite the recovery of economic growth in many developing countries, unemployment and underemployment remain major problems, and employment

growth has improved only in a small number of countries in Asia. High unemployment, particularly high youth unemployment,[5] is more than a cyclical problem in countries in Africa, Latin America and Western Asia. A major challenge in poverty reduction and social development is the design and implementation of structural policies, such as implementation of education and job-training programmes and measures that improve access for women and youth to these services to facilitate the match between the demand and the supply of workers, consistent with macroeconomic policies conducive to cyclical stabilization of employment.[6]

8. Within the framework of internationally agreed development goals, including those in the United Nations Millennium Declaration (General Assembly resolution 55/2) and the Monterrey Consensus on national and international policies to achieve these goals, there is growing recognition that the diversity of circumstances facing developing countries needs to be dealt with via policy differentiation among countries. This is reflected in the initiation of poverty reduction strategy papers on the basis of the specific concerns of countries participating in the Heavily Indebted Poor Countries (HIPC) Initiative process. It is important that all international assistance programmes and multilateral agreements provide adequate policy space for countries to implement nationally diverse development policies based on domestic consultation and consensus.[7]

9. The importance of developing a dynamic private sector via policies that facilitate the creation of small- and medium-size enterprises is being increasingly recognized. Efforts are also being made to improve domestic business climates through the identification of the scope and manner of regulations that enhance business activity and those that constrain it.[8] However, as noted in the report entitled "Unleashing entrepreneurship: making business work for the poor",[9] commissioned by the Secretary-General, progress still needs to be made, particularly in low income countries, in revising and simplifying regulations to expedite the formation of private business activities and to foster entrepreneurship.

10. While progress has been made in introducing reforms to improve oversight and regulatory systems for corporate governance and adherence to accounting and disclosure standards, particularly in middle-income countries,[10] continued and intensified efforts are still needed to strengthen these institutional supports and legal enforcement for the effective functioning of the private sector and to mobilize domestic and foreign private investment.

11. With technical assistance from the international financial institutions, efforts are under way in many developing countries to strengthen the financial regulatory and supervisory framework and to promote greater disclosure. Since the breadth and the depth of domestic capital markets in many developing countries have developed slowly, legal, accounting and institutional reforms remain of utmost importance for the efficient operation of these markets.[11] These actions to strengthen and expand the banking sector and financial markets also improve policy effectiveness.

12. Efforts are also ongoing in many developing countries to expand and improve access of small and medium-sized enterprises, microenterprises, the poor, women and rural populations to the financial system. Measures include the reassessment of regulatory frameworks and property and collateral laws to reduce barriers to lending, the development of innovative financial products, including savings and insurance products, increasing availability of credit information of potential

borrowers and improving the linkage between small-scale finance and microfinance with the formal financial sector. The mobilization of commercial and specialized financial institutions, including development banks, credit unions and housing banks, continues to be important in this area, as does the development of ancillary business services that can complement these efforts by supporting the operations of small- and medium-size enterprises and microenterprises and improving their access to credit. To further this process, the Financing for Development Office is organizing a multi-stakeholder dialogue on building an inclusive financial sector (see para. 71). International cooperation has also continued to play an important role, underscored by the announcement in June 2004 that, in anticipation of the International Year of Microcredit 2005, the Group of Eight (G-8) countries will work with the Consultative Group to Assist the Poor, the United Nations Capital Development Fund and relevant organizations of the United Nations system tc establish a working group to prepare a global, market-based finance initiative to stimulate sustainable, pro-poor financial sectors. It is important that these initiatives be complementary and self-reinforcing.

13. Remittances are an important complement to domestic resources of finance for developing countries.[12] They are more evenly distributed, with the poorer countries getting the larger share, are well-targeted towards poor people and increase during economic and financial crises when other private flows tend to decrease or reverse. Larger than all other private flows for several countries, preliminary work on data collection indicates that unrecorded remittances may be significantly greater than believed. An inter-agency task force on remittances comprising about 15 institutions, including the World Bank, the International Monetary Fund, the Inter-American Development Bank, the United States Agency for International Development, the United Kingdom Department for International Development and others, is undertaking further work in this area on improving remittance data, exploring ways to reduce the cost of remittances and disseminating information on remittance flows. There is also work ongoing with the Asia-Pacific Economic Cooperation (APEC) Alternative Remittance System (ARS) Initiative. A report on two case studies, which includes conclusions from the APEC Dialogue on Remittances, will be presented to the APEC finance ministers in September 2004. The Bank for International Settlements, together with the World Bank, is co-chairing a task force on developing general principles for developing cost-effective and efficient remittance systems that service providers and regulators can adopt to ensure a competitive market that provides remittance services at the lowest possible cost.

III. Mobilizing international resources for development: foreign direct investment and other private flows

14. Net private capital flows to developing countries grew in 2003 by more than $70 billion, although their level remained substantially below the average figures attained in the early 1990s. The recovery in flows was accompanied by declines in both interest rates and spreads on bonds and commercial bank credits. Although there was a decline in net inflows linked to direct investment in 2003, these flows remained positive and continued to be the largest component of private capital flows to developing countries (see table 1). However, this generally positive picture of overall improvement in private capital market flows and conditions for developing

countries should be seen against the background of negative net financial transfers for a large number of developing countries and economies in transition at a level of close to $250 billion for all developing countries in 2003.[13]

15. The question of how to attract and encourage the efficient use of FDI in a greater number of developing countries, including the least developed countries, thus remains a major challenge. FDI flows remain highly concentrated in the larger emerging market economies and the 10 largest recipient countries account for three-fourths of total FDI inflows to developing countries. China alone accounts for nearly one-third of the total.

16. To attract additional direct investments, a growing number of developing countries have strengthened their efforts to reform regulations on foreign investment and have become more aware of the importance of a favourable domestic investment environment. Many countries have entered into bilateral and multilateral investment agreements. The number of bilateral investment treaties and double taxation treaties totalled 2,265 and 2,315, respectively, by the end of 2003.[14] Moreover, an increasing proportion of free trade agreements or regional trade agreements (see paragraph 28) contain FDI provisions, and a number of countries are making efforts to establish regional and bilateral arrangements in trade and financial cooperation.

17. Efforts continue to strengthen the collection and the dissemination of information for both foreign and local investors in developing countries. There have been various initiatives by both the public and private sectors, including calls for collaboration between the public and private sectors to enhance the use of technology and the Internet for public/private dialogue and information dissemination and for investment in capacity-building for information infrastructure in developing countries.

18. An increasing number of developing countries have made improved physical infrastructure in areas such as transport, energy and telecommunications a priority. This is an important aspect of an enabling environment for FDI, and some developing countries have wide-ranging plans in that respect. Investment in infrastructure is not only necessary to provide the appropriate enabling environment for FDI; it also plays a crucial role in the effort to achieve the Millennium Development Goals. Deficient investment in these areas is particularly acute in low-income countries and in rural areas within countries, and major increases in investment of nearly double the levels of the 1990s are needed.[15] This will not only require a reversal of the decline of the past decade in public spending on infrastructure, but also increased external assistance.

19. Since the response of private investment in this area has not been adequate to the size of the challenge, the financing of infrastructure projects in certain areas may call for collaboration between the public and private sectors in order to provide the tools and measures necessary to mitigate the risks facing investors. Revisiting the question of the proper role of public sector investment and its support by the multilateral financial institutions may be appropriate. In this regard, the IMF is exploring a new approach to the design of Fund-supported lending programmes that would provide greater flexibility to accommodate additional high-quality public investment, when consistent with macroeconomic stability and fiscal sustainability. It would allow commercially run public enterprises to be excluded from fiscal

indicators and targets, and would clarify the accounting treatment of public-private partnerships.

20. The role of FDI in furthering development depends on a number of factors, not least of which are the existence of a positive overall domestic business climate and adequate infrastructure, in order to support its contribution to strengthening local enterprises, creating jobs and, in general, raising living standards. The quality of the local enterprise sector is important for attracting investment from abroad; the presence of competitive firms in dynamic expanding markets creates the linkages that enable foreign companies to channel work to local counterparts.[16] In that context, the partnership forged by the World Association of Investment Promotion Agencies, in collaboration with the United Nations Conference on Trade and Development (UNCTAD), among investment promotion agencies (with 165 members from some 140 countries as of June 2004) plays an important role by providing a venue for the exchange of information and experience with respect to investment promotion and policy-making.

21. Measures that engage businesses in the social and environmental aspects of development and building productive capacity continue to be important dimensions of mobilizing domestic and foreign investment. Diverse stakeholders, including the business sector, non-governmental organizations and international organizations, have proposed principles of corporate social responsibility. Most recently, the Global Compact, which has experienced substantial growth in its membership since inception, held its first summit in June 2004 and officially adopted a tenth principle on anti-corruption.[17] The challenge remains to work to ensure that principles of corporate social responsibility take hold in business entities and that more capital flows generate increasing per capita income in developing countries.

IV. International trade as an engine for development

22. The Decision of the World Trade Organization (WTO) General Council of 1 August 2004 setting out frameworks for future negotiations represents a major breakthrough in carrying forward negotiations in some key areas of the Doha work programme launched at the Fourth WTO Ministerial Conference in 2001. The successful conclusion of the eleventh session of UNCTAD (UNCTAD XI) in Sao Paulo in June 2004 outlined a series of policies and actions, including within the context of the Doha work programme, for maximizing development gains from international trade, the trading system and trade negotiations. In parallel, burgeoning regional trading agreements, including those between developed and developing countries, have raised questions regarding their interface with the multilateral trading system, as well as their developmental implications.

23. The Fifth WTO Ministerial Conference held in Cancún in September 2003, had instructed the General Council to take action necessary to enable countries "to move towards a successful and timely conclusion of the negotiations."[18] On 1 August 2004, the General Council agreed to negotiating frameworks in the areas of agriculture, market access for non-agricultural products, services, development issues and trade facilitation and to reinforce the priority attached to the development dimension of the Doha work programme to bring tangible and timely results for developing countries. The agreement should help end uncertainty in the multilateral trading system, calm protectionist fears and tendencies and contribute to the efforts

of developing countries and the international community to meet the Millennium Development Goals.[19]

24. The decision and the frameworks represent forward movement in several areas, in particular the commitment to eliminate agricultural export subsidies, although no end-date has been set. This commitment is linked directly to the elimination of other export measures with equivalent effect, including export credits, export credit guarantee and insurance programmes with repayment periods of more than 180 days and trade-distorting practices with respect to exporting State-trading enterprises. Furthermore, rules will be developed to ensure that food aid does not displace commercial trade, and the negotiations will also consider whether all food aid could be provided in grant form. Agreement that the importance of cotton will be addressed ambitiously, expeditiously and specifically promises an early harvest of significant results, particularly for the benefit of the African least developed countries cotton producers and exporters. The decision also reaffirmed the importance of long-standing trade preferences and that preference erosion should be addressed. Special and differential treatment in favour of developing countries is an integral element in all parts of the agriculture package. At the same time, deadlines have been set for the operationalization of aspects of the Doha Work Programme, such as special and differential treatment, implementation and services. The Modalities for Negotiations on Trade Facilitation aim to clarify and improve relevant aspects of articles V, VIII and X of the General Agreement on Tariffs and Trade (GATT) 1994, with a view to further expediting the movement, release and clearance of goods, including goods in transit, and to enhance technical assistance and support for capacity-building in this area. Of particular importance to developing countries is the recognition of the principle that the extent and the timing of entering into commitments shall be related to the implementation capacities of developing and least developed countries and that, where they lack the necessary capacity, implementation will not be required. In addition, by dropping the other so-called Singapore issues — trade and investment, trade and competition policy, and transparency in government procurement — from the Doha work programme, the decision allows developing countries to focus their efforts and scarce resources on pursuing their core trade and development interests.

25. At the same time, a number of dispute settlement cases have been resolved, the results of which could have implications for negotiations. In April 2004 an earlier decision was confirmed that the special European Union arrangements for granting tariff preferences to certain developing countries under its Generalized System of Preferences scheme to combat drug production and trafficking[20] were not in conformity with GATT 1994 and were not justified under paragraph 2 (a) of the Enabling Clause. However, the decision noted that the Clause does not require identical tariff treatment for all countries, thereby providing a basis differentiation in Generalized System of Preferences tariff treatment based on objective criteria, while retaining the principle of identical treatment for similarly-situated Generalized System of Preferences beneficiaries; i.e., beneficiaries with similar development, financial and trade needs. In June 2004, a dispute settlement panel[21] found that domestic subsidies for cotton production were not in compliance with the United States WTO obligations because they exceeded WTO negotiated limits. This should have important implications for the request by four African cotton-producing countries at Cancún to phase out subsidies on cotton. An interim report by a dispute panel issued in August found that the EU subsidies to sugar exporters exceeded the

limits agreed in the Uruguay Round.[22] Several other cases dealing with anti-dumping and countervailing duties, including that dealing with regulations and methodology for calculating dumping margins ("zeroing") and amounts of subsidy, should also have an impact on the future application of anti-dumping and countervailing duties.[23]

26. The liberalization of textile trade in 2005, as mandated under the Agreement on Textiles and Clothing will be of major importance for developing countries. However, since little liberalization has taken place to date, there is the risk of market disruptions in the immediate post-Agreement period. While liberalization in textile trade can bring important benefits to developing countries with competitive advantage in this area, those that are less competitive could face uncertainties as regards maintenance of their market share. For the latter countries, adjustment support, such as the International Monetary Fund recently announced trade integration mechanism (see para. 59) may be necessary.[24]

27. The rapid expansion and the deepening of regional trade agreements continued to be a central feature of trade integration for developing countries. Currently, approximately 40 per cent of world trade takes place under regional trade agreements, and the share is expected to exceed 50 per cent by 2005. Of the 285 regional trade agreements notified to WTO by 2003, 215 are in force today, and the number in force will exceed 300 by 2007 if the 60 regional trade agreements currently under negotiation and the 30 at the proposal stage are successfully concluded.[25] Many link different regions and continents, in most cases on a bilateral basis. Traditionally governed by various unilateral preferences schemes, a number of agreements under negotiation are aimed at transforming the trade and economic relations that developing countries enjoyed with their previously preference-granting developed countries into reciprocal free trade areas, such as the pan-American negotiations for the Free Trade Area of the Americas, or wider partnership accords, as is the case with the African, Caribbean and Pacific countries-EU negotiations for the Economic Partnership Agreement under the Cotonou Agreement, or a variety of bilateral North-South agreements.

28. Recent "new generation" "WTO-plus" regional trade agreements cover not only trade in goods, but also other "behind-the-border" regulatory areas including services, investment, capital flows, intellectual property rights, government procurement, labour, environment and development cooperation, going beyond multilateral commitments. Even where multilateral rules exist, negotiations for WTO-plus regional trade agreements can transform themselves into standard-setting negotiations and can create the risk of excessive harmonization of regulatory standards in developing countries. The implications for regulatory standard-setting of regional trade agreements are particularly significant for developing countries since they may place them under pressure to adopt higher standards, such as patent protection in terms of coverage, level of protection or enforcement, thereby reducing the scope of policy flexibility available under multilateral rules applying to investment, competition policy, government procurement, environment, labour standards and measures to ensure access to essential medicines for all. As a result, Free Trade Agreements and regional trade agreements should be seen as second-best options.

29. The role of trade in financing development was also part of the discussions at the eleventh session of UNCTAD (UNCTAD-XI) held in Sao Paulo from 13-18 June

2004. The "Spirit of Sao Paulo" and the Sao Paolo Consensus emphasize that trade is not an end in itself, but a means to growth and development, and stress the importance of the quality of trade in terms of beneficial integration of developing countries into the international trading system, contributing to growth, sustainable development and poverty eradication, as well as its quantity. Improvements in quality can best be achieved by increasing supply capacity and competitiveness of exports of goods, services and commodities, including within dynamic and new sectors of world trade; improving market access and market entry conditions; and responding to interrelated areas of trade, debt and finance and technology transfer.

30. The Conference stressed that all countries have a shared interest in achieving concrete development-oriented outcomes to the Doha Work Programme. Key development components include special and differential treatment; implementation issues; recognition that market entry barriers, including product standards and technical regulations, are a major challenge to effective market access; centrality of agriculture in negotiations; non-agricultural products negotiations; services negotiations, including rule-making; infrastructural services; and in sectors of export interest to developing countries, notably mode 4; accession to WTO by least developed countries, developing countries and countries with economies in transition, consistent with WTO agreements and their development status; addressing unilateral actions inconsistent with WTO rules; problems of small, vulnerable developing countries, including small island developing States; problems of landlocked developing countries within a new global framework for transit transport cooperation for landlocked and transit developing countries; preference erosion and utilization issues, including strategies to promote adjustment by preference-dependent firms and industries; and duty-free and quota-free market access for least developed countries.

31. The importance of continued and concerted focus on commodities, including instability of world commodity prices, and the difficulties faced by commodity-dependent developing countries were also stressed at the Conference. Efforts by these countries to restructure, diversify and strengthen the competitiveness of their commodity sectors, including through local processing and reducing tariff escalation, should be supported. The potential for regional integration and cooperation to improve the effectiveness of traditional commodity sectors and support diversification efforts should be exploited.

32. With reference to the recommendations contained in the report of the Meeting of Eminent Persons on Commodity Issues, UNCTAD XI launched the idea of a global partnership in the form of an international task force on commodities.

33. South-South trade is an important aspect of an emerging new trade geography, whereby the developing countries as a whole are progressively becoming a source of growth of the world economy and trade. Although the volume of South-South trade is just over 10 per cent of total world trade, it has been growing at an annual rate of around 11 per cent in recent years. Over 40 per cent of developing country exports are to other developing countries. An invigorated and more comprehensive Global System of Trade Preferences can help expand South-South trade. A major step in this direction was taken with the announcement at UNCTAD XI of the agreement to launch a third round of Global System of Trade Preferences negotiations.

V. Increasing international financial and technical cooperation for development

34. Official development assistance (ODA) in the form of loans and grants from member countries of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee rose to $68.5 billion in 2003 from $58.3 billion in 2002, but, adjusted for inflation and exchange rate movements, the real increase was only $2.3 billion. Since this figure includes debt relief and conflict-linked expenditures, there was only a slight increase in resources directed to development efforts.[26] The share of ODA to GNI rose to 0.25 per cent from 0.23 per cent during the same period. The total aid effort of Development Assistance Committee countries to the least developed countries also rose slightly in 2002 (year of latest available data), but remained below the United Nations ODA targets for least developed countries.

35. The latest ODA projections for 2006 for the Development Assistance Committee countries are presented in table 2. It shows that, based on the most recent commitments by Development Assistance Committee countries, ODA in 2006 should reach $77 billion, a 32 per cent increase in real terms from 2002. In addition to the pledges made at Monterrey, increases in ODA could come from the new members of the EU, most of which will join the ranks of donor countries for the first time. Additional ODA could also come from the increase in the number of smaller aid programmes by middle-income countries. In 2006, the share of ODA to GNI of Development Assistance Countries is forecast to rise to 0.29 per cent, from 0.23 per cent in 2002.[27]

36. Despite the projected increase in ODA, it is widely agreed that achieving the Millennium Development Goals will require a further substantial increase in ODA to developing countries, to at least twice the 2001 levels. It is also increasingly recognized that for many of the poorer countries where the challenge is most acute, most, if not all, assistance flows will have to be provided on grant terms. It is also important to distinguish the provision of assistance for peace and security purposes, such as the war on terrorism and rebuilding efforts in war-affected zones, as additional requirements that should not be allowed to crowd out regular development aid.

37. In addition to significantly increasing ODA to achieve the Monterrey Consensus and the Millennium Development Goals, efforts to enhance aid effectiveness through more harmonized procedures and improved donor coordination have increased. The Development Assistance Committee Working Party on Aid Effectiveness and the Task Team on Harmonization and Alignment are acting to implement the commitments of the Rome high-level forum. A progress report on that work will be discussed at the upcoming second high-level forum to be held in Paris in March 2005. The Second International Roundtable on Managing for Development Results[28] was held in Marrakesh, Morocco, in February 2004, to help foster an emerging consensus on the priorities for the global partnership on managing for results. Sponsoring agencies endorsed a joint memorandum, core principles and an action plan that can serve as a foundation to broaden this consensus and take further action in coming years. The Development Committee also has called for a paper on aid effectiveness and financing modalities to be prepared for the 2004 Annual Meetings of the World Bank and the International Monetary Fund. Building on previous work, the paper will cover the role of aid,

ongoing work on aid effectiveness, absorptive capacity and innovative financing mechanisms such as an international financing facility and other options. The International Monetary and Financial Committee has also made a similar request.

38. Aid effectiveness is also being addressed at the regional level. The European Commission recently put forward proposals aimed at expediting progress on the pledge made at the Barcelona summit to enhance policy coordination and aid procedure harmonization.[29] The Economic Commission for Africa (ECA) and the Development Assistance Committee have agreed to conduct joint Africa-OECD reviews of the impact of partner country policies on Africa development programmes. NEPAD prioritizes the development issues of the region, and its peer review mechanism on economic and political governance will monitor country performance, inter alia, in the field of economic management in the context of attaining development goals. The Africa Partnership Forum was established in 2003 to focus on strategic and political issues related to the implementation of the NEPAD programme of action.[30] Brazil, along with India and South Africa, created the India-Brazil-South Africa Facility for Hunger and Poverty Alleviation, within the United Nations Development Programme. The objective of this fund is to replicate and disseminate successful social policies and projects in developing countries in the areas of improved access to health, education, sanitation and food security, among others.

39. While many countries have pledged to substantially increase their ODA over the next several years, some already face adverse fiscal constraints, and additional demands are likely to further increase those pressures. The task is, therefore, not only to mobilize resources to speed progress towards achieving the Millennium Development Goals, but also to formulate a strategy that will ensure the predictable flow of resources over the long term. In this context, it is noted that even if the Millennium Development Goals were universally attained by 2015, they would reflect only partial achievement of the overall development task. Poverty, even when reduced by half, will remain a global challenge.

40. To address this challenge, there has been increasing discussion of new and innovative ways to increase sources of international development finance. A technical group comprising the Presidents of Brazil, Chile and France, and more recently Spain, is nearing completion of a report on these issues, which will be presented at a special meeting of world leaders to be convened by the President of Brazil on 20 September. Analysis of existing proposals will also be included in the report undertaken by the World Institute for Development Economics Research and commissioned by the Secretariat at the request of the General Assembly (A/59/272, annex). Similarly, at its April 2004 meeting, the Development Committee called for the preparation of a report[31] on financing mechanisms for mobilizing additional resources, including global taxation and an international finance facility. The World Food Programme has also put forward a number of alternative proposals.

41. Few of the proposals on innovative financing mechanisms have been subjected to intergovernmental debate. However, since the need for additional financial resources for development, is urgent, and with additional analytical material becoming available, many believe that it is opportune to initiate such a debate, as soon as possible, as most of the proposals, even if accepted, would take time to become operational. The fifty-ninth session of the General Assembly would seem to be the appropriate forum for initiating those discussions at the United Nations, with

a view to begin building consensus on decisions that might be agreed at the next High-Level Dialogue on Financing for Development and the major event of the General Assembly scheduled for the fall of 2005.

VI. External debt

42. Although the total external debt of developing countries and countries with economies in transition continued to increase in 2003, by around $95 billion or 4 per cent in 2003, improved conditions were suggested by the 2 per cent decline in the ratio of external debt to GNI, the decline to 98 per cent in the external debt-to-export ratio and the decline to 15 per cent in the debt-service-to-export ratio. These improvements in aggregate measures were largely the result of continued improvements in net export balances of a small number of countries that allowed them to build higher foreign exchange reserves and to reduce the ratio of short-term loans to foreign reserves. However, in other areas such as Eastern Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean, the considerably faster increase in short-term debt of 11.6 per cent, relative to the 2.3 per cent increase in long-term debt, has increased vulnerability. Many low- and middle-income countries experienced increasing difficulty in meeting debt commitments, as the ratio of total debt to gross national income continued to worsen in Latin America and the Caribbean, as well as in North Africa and the Middle East, where income growth accelerated at a slower pace than in other regions. Some countries in sub-Saharan Africa and East Asia and the Pacific saw an increase in arrears, while the largest increase was due to the delay in restructuring the Argentine debt.[32]

43. Reserve accumulation has become increasingly important as a means of "self-insurance" against external financial instability and ensuring the ability to meet debt service commitments in the absence of appropriate, and less costly, counter-cyclical international mechanisms for liquidity provision. The contingency credit line (CCL), which was created by IMF in 1999 to serve this purpose, was subject to onerous pre-qualification conditions and the possibility of adverse signalling. That made it sufficiently unattractive to countries that might have qualified to opt for reserve accumulations, and the facility was never used before it lapsed in November 2003. However, the existence of the unprecedented build-up in reserves suggests that there is an unsatisfied need for some type of facility to satisfy preventive liquidity needs for developing countries.

44. The move towards debt sustainability continued as the number of countries qualifying for the full debt relief available under the Heavily Indebted Poor Countries (HIPC) Initiative at the completion point increased to 14,[33] and interim relief is being made available to another 13 countries that have reached the decision point. Because of a sunset clause, the HIPC Initiative is due to conclude at the end of the current year. The boards of IMF and the World Bank are engaged in active discussion on an extension of the initiative in order to improve the possibility of sustainability for the countries that have not yet reached the decision point, as well as those that are benefiting from the existing programme.

45. The Paris Club remains an integral part of the HIPC Initiative process, and six of the nine countries granted new agreements between July 2003 and the end of June 2004 were HIPC. Five countries that reached the completion point in 2004 obtained

a reduction of their debt stocks as the share of the Paris Club in the total relief under the HIPC Initiative, and in all cases additional bilateral commitments for relief were made by creditors to further bring down debt burdens.

46. A number of non-HIPC developing countries are facing increasing difficulty in meeting their debt service commitments.[34] Efforts to increase flexibility in dealing with their debt problems under the Evian approach[35] allow a distinction between liquidity problems and medium- and long-term solvency problems in treating the debt owed to official bilateral creditors. Thus far the new options have yet to be applied.[36]

47. It has been noted that while 100 per cent of the bilateral debt of the poorest countries has been cancelled by many donors, in practice relief of multilateral debt has not exceeded 50 per cent. To complete the process of debt relief, it has been proposed to use IMF gold, through revaluation or off-market transactions, as was done in the enhanced HIPC process, to match bilateral debt relief with appropriate multilateral relief of up to 100 per cent.[37]

48. Out of concern that developing countries be better assisted to manage their external debt, the IMF introduced, in 2002, a new debt sustainability framework for assessing the probable evolution of the debt situation of a country, and in 2004 the Fund, jointly with the World Bank, proposed a special debt sustainability framework for low-income countries whose primary creditors are official institutions.[38] The new approach is meant to assist countries that have emerged from the HIPC process and other low-income countries, as well as their creditors, to better assess the implications of new lending programmes for debt sustainability. It emphasizes the need for greater provision of official development assistance to low-income countries in the form of grants. Among other considerations is the differing capacities and qualities of economic policy-making, in particular of the ability of countries to work towards achieving the Millennium Development Goals. This is particularly important for countries that have not yet reached the decision point, since eight are either conflict-affected or post-conflict countries, and that have accumulated large and protracted arrears vis-à-vis the international financial institutions, in some cases since the mid-1980s.

49. Crisis prevention and resolution are both part of financial stability and debt sustainability. IMF and the World Bank have created the Financial Sector Assessment Programme to identify the strengths and the vulnerabilities of the financial system of a country to determine how key sources of risk are being managed and to provide assessments of observance of relevant financial sector standards and codes in reports on observance of standards and codes and financial system stability assessments. The Financial Sector Reform and Strengthening Initiative, a $53 million multidonor programme, also supports capacity-building and policy development projects in developing countries. The International Task Force on Commodity Risk Management in Developing Countries provides support to producers, developing country organizations and Governments to manage the impact of volatility on commodity production and earnings.

50. Restructuring debt owed to private creditors is also an important aspect of external debt crisis resolution. The experience of recent financial crises and disruptions in emerging market economies renewed interest in proposals to facilitate restructuring of sovereign bond debt, which have been under discussion since the Latin American debt crisis of the 1980s. The absence of consensus on the recent

proposals for a sovereign debt restructuring mechanism leaves the introduction of collective action clauses into individual bond issues and the development of a voluntary code of conduct by private creditors and sovereign debtors, with the support of the multilateral financial institutions, the major ongoing initiatives in this area.

51. Although there is as yet no uniform standard, a majority of emerging market international sovereign bond issues under New York law now include collective action clauses. There is no evidence yet to confirm initial concerns that the inclusion of collective action clauses in bond issues might lead to an increase in the cost of borrowing. However, the full impact on more effective restructuring will occur only when collective action clauses are included in the entire stock of outstanding securities.

52. The International Monetary and Financial Committee of the Board of Governors of the IMF and the Group of Seven (G-7) have also encouraged sovereign debtors and private creditors to continue their work on a voluntary code of conduct, which could provide a comprehensive non-statutory framework to address potential debt servicing problems while preserving, to the greatest extent possible, contractual arrangements.[39] The Group of Twenty (G-20) countries has established a technical group to prepare a draft code in cooperation with private sector representatives.[40] The intention of the code is to promote an early, voluntary dialogue between debtors and creditors on corrective policy and financial action to reduce the frequency and the severity of crises, to avoid disruptions and to achieve more equitable burden-sharing in the process of crisis resolution. An early dialogue could also lead to a more rapid rehabilitation of debtors and the restoration of market access. In order for any voluntary mechanism to function effectively, steps will have to be taken to ensure adequate measures that will guarantee equal treatment for small debtors who may not be able to negotiate as effectively as large debtors in a voluntary mechanism.

53. However, as the developing countries invited to join the G-20 discussion are among the larger emerging market economies, it would be appropriate that a draft code be further considered, as called for in paragraphs 62 and 63 of the Monterrey Consensus, in a more representative framework, in which developing countries, as well as developed countries, may participate in a voluntary, open dialogue along with creditor representatives.

54. In addition to these procedures that aim to reduce uncertainty about how a sovereign debtor under stress would deal with its private creditors, increased attention is being paid to designing more flexible external debt instruments, which may help borrowing countries develop more desirable debt structures. These could include new forms of debt such as instruments involving elements of real indexation, as well as developing deeper and more resilient domestic capital markets that would allow greater issuance of local-currency denominated bonds. Greater use of inflation-indexed bonds should encourage buyers to accept longer maturities. Larger countries with diversified export earnings could issue instruments with returns indexed to real variables closely related to their economic performance (such as GDP), while indexing to commodity prices or greater use of hedging against commodity price volatility would be appropriate for smaller countries with export revenues concentrated on a small set of commodities.[41]

VII. Addressing systemic issues: enhancing the coherence and the consistency of the international monetary, financial and trading systems in support of development

55. As indicated in section II above, over the past several years, many countries have adopted measures and policies to lessen their vulnerability to shocks, including more gradual capital account liberalization, reserve accumulation, the introduction of more flexible exchange rates, changes in liability management practices, strengthening domestic financial institutions and implementing standards and codes of good practice.

56. Multilateral surveillance of national economic and financial policies, as well as of developments in global markets, particularly by IMF, is the chief global tool for promoting coherence of national macroeconomic policies and financial stability, thereby contributing to the prevention of financial crises. It is recognized that surveillance must not only help identify imbalances and vulnerabilities, but it must also signal potential problems to policy makers and markets and prompt early action.

57. With deepening financial integration, the focus of surveillance is increasingly on system stability as a whole. Consequently, there is the need to significantly strengthen surveillance of the major industrial countries and their impact on global capital markets. At present, an important focus of surveillance could be restoring macroeconomic balance in the world economy without jeopardizing growth prospects in developing countries.

58. One of the most important regulatory developments since the 1997-1998 financial crisis has been the proposal by the Basel Committee on Banking Supervision for a new capital adequacy framework to replace the 1988 Basel Capital Accord.[42] In June 2004, the Basel Committee issued its latest proposals to amend the international capital standards. Implementation of the New Accord is scheduled to take effect in the Group of Ten (G-10) member countries by year-end 2006. Some observers have suggested that the application of the new, more risk-sensitive, capital framework may reduce foreign lending to developing countries, raise its costs and increase pro-cyclicality.[43] The Committee itself has acknowledged that moving towards its adoption in the near future may not be a first priority for non-G-10 supervisory authorities in terms of what is needed to strengthen their supervision. In many cases, it could be more important to first address deficiencies in existing supervisory and capital adequacy frameworks with appropriate assistance from the international community. While the Basel Committee has taken steps to increase consideration of the views of developing countries in this area, as there is no formal representation on the Basel Committee itself, these important issues should be addressed before the New Accord becomes operational.

59. The international community has a long-standing responsibility to provide adequate financial support to assist countries in undertaking appropriate economic adjustments to balance-of-payments problems. One of the priority areas has been trade-related financing. As indicated in paragraph 29 above, the international community is exploring ways of improving access of developing countries to trade financing, particularly in periods of financial crisis, as well as supporting countries that may suffer temporary earnings shortfalls as a result of trade liberalization or commodity price volatility. In this regard, the IMF has introduced the trade

integration mechanism to alleviate developing country concerns that their balance-of-payments positions could come under temporary pressure due to increased competition, the loss of preferential access to export markets caused by multilateral liberalization of international trade or declining terms of trade due to reductions in agricultural subsidies. The first action under the programme was an increase in the poverty reduction and growth facility of Pakistan to meet balance-of-payments pressures due to the expiry of the Agreement on Textiles and Clothing at the end of 2004 (see para. 26 above).[44]

60. Over the past several years, there have been attempts to develop some form of contingent financing that can be mobilized quickly, on a sufficiently large scale to provide financial support for middle-income countries that face potential capital account crises. The IMF is continuing discussions on the role that precautionary arrangements, possibly linked to enhanced surveillance, can play in preventing capital account crisis and on the access that is required for this insurance to be meaningful.

61. Steps have also been taken to improve clarity about IMF lending decisions in crisis resolution, especially with regard to situations when exceptional access to IMF financing may be appropriate. In April 2004, the IMF Executive Board assessed the experience with its new framework for such access, which had been applied thus far in the decisions on Argentina and Brazil, and decided not to change the exceptional access criteria. Some have suggested that efforts should be made to strengthen the Fund's "lending into arrears" policy through the development of more operational criteria for judging country compliance with the good-faith-efforts requirement to resolve its arrears to private creditors.

62. There have also been important proposals by the group of middle-income countries, such as the Rio Group initiative, aimed at examining the urgent adoption of flexible and innovative financial mechanisms to increase public and private investments.[45]

63. In accordance with paragraph 10 of resolution 58/230, the Economic and Social Council considered, at its 2004 substantive session, the report of the Secretary-General on the eleventh meeting of the Ad Hoc Group of Experts on International Cooperation in Tax Matters (E/2004/51), held in Geneva in December 2003, which included a number of suggestions in relation to the institutional framework for strengthening international cooperation in tax matters. The Council decided to continue consideration of the matter, including a proposed resolution, at its resumed session; it is hoped that an agreement can be reached on this important subject, which has been highlighted in the Monterrey Consensus and in previous reports of the Secretary-General.

64. There is increasing recognition that international financial governance structures must evolve to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting. However, as political will to comprehensively address this important issue has not yet been fully mobilized, the international community should continue the search for acceptable solutions that can lead to possible breakthroughs in this area. Meanwhile, developing countries should try to make the most of available opportunities, including greater use of regional groupings, to have greater say and influence on the international policy agenda.

VIII. Staying engaged

65. The Monterrey Consensus envisaged the need to build a global alliance for development. Hence, all stakeholders in the Monterrey process reaffirmed their commitment to staying fully engaged — nationally, regionally and internationally — and to ensuring proper follow-up to the implementation of agreements and commitments reached at the International Conference on Financing for Development.

66. The General Assembly held its first High-Level Dialogue on Financing for Development on 29 and 30 October 2003, which focused on the assessment of the implementation of the Monterrey Consensus. More than 190 Governments, many represented at the ministerial level, along with 35 intergovernmental organizations, some represented by their most senior officers, and numerous representatives from the business sector, academia and non-governmental organizations participated in the dialogue. It was the first time in the history of the United Nations that the President of the World Bank and the Managing Director of the IMF addressed the General Assembly. The Deputy Managing Director of the WTO also addressed the General Assembly on this occasion, along with senior officials of the United Nations system and regional organizations and institutions. The outcome of the dialogue, embodied in the summary by the President of the General Assembly of the High-Level Dialogue on Financing for Development (A/58/555 and Add.1 and 2), included a number of recommendations to advance implementation of the Monterrey Consensus.

67. The Economic and Social Council held a special high-level meeting with the international trade and financial institutions on 26 April 2004 on the overall theme of "Coherence, coordination, and cooperation in the context of the implementation of the Monterrey Consensus". This meeting witnessed for the first time UNCTAD participation at the intergovernmental level, represented by the President of the Trade and Development Board. The meeting was preceded by consultations within the Economic and Social Council, and between Council bureau members and the management of the Bretton Woods institutions and WTO, as well as by meetings with Executive Directors of IMF and the Executive Board of the World Bank. The President of the Council also met with the Chairman of the General Council of WTO and the President of the Trade and Development Board. In preparation for the meeting, hearings with representatives of civil society and the business sector were held. The summary by the President of the Economic and Social Council (A/59/92 and Add.1 and 2-E/2003/73 and Add.1 and 2) covers the views expressed in plenary statements and in substantive discussions in the six round tables that were held during the meeting.

68. At its 2004 substantive session, the Council considered the President's summary and engaged in consultations on a draft resolution regarding follow-up activities, including the need for early decisions on focusing future high-level meetings on specific issues, within the holistic integrated approach of the Monterrey Consensus. It is hoped that agreement will be reached on this important matter and, more generally, on the need to consolidate and strengthen further the intergovernmental mechanisms put in place to follow up the Monterrey Consensus.

69. The Monterrey Consensus and its various elements have been adopted and put into action in the programme of work of many national Governments, multilateral

institutions, business entities and non-governmental organizations at the national, regional and international levels, thus contributing to implementation of the Consensus. For example, the G-8 summit, held at Sea Island, Georgia, United States, in June 2004, adopted an action plan entitled "Applying the power of entrepreneurship to the eradication of poverty". In follow-up, a conference will be held in the fall of 2004 to highlight and disseminate best practices in this private-sector approach to development. Another example is the Development Assistance Committee meeting, held in April 2004, which dealt with key areas of the Monterrey Consensus related to achieving the Millennium Development Goals, enhancing the voice and the participation of developing countries in decision-making processes and improving the design and the work of poverty reduction strategy papers at national levels.

70. In March 2004, two major business sector organizations involved in the Monterrey process, the Business Council for the United Nations and the International Chamber of Commerce, organized a workshop in New York, with the participation of senior representatives from both the private and public sectors, to review remaining shortcomings in the provision of information to private investors, assess existing initiatives and develop new ideas. The meeting called for collaboration between the public and private sectors to enhance the use of technology and the Internet for public/private dialogue and information dissemination and for investment in capacity-building in information infrastructure in developing countries. The meeting also considered initiatives to mitigate the risks for investors in developing countries. It highlighted the work of the group of experts on infrastructure finance, initiated at the Monterrey Conference to facilitate dialogue between the public and private sectors on promising approaches to risk-sharing, and called for increased participation in this initiative.

71. As requested in General Assembly resolution 58/230, the Financing for Development Office of the Department of Economic and Social Affairs has started organizing a series of multi-stakeholder consultations on the various chapters of the Monterrey Consensus to examine issues related to the mobilization of resources for financing development and poverty eradication and to promote best practices and exchange information on the implementation of the commitments made and agreements reached at the Monterrey Conference. The preliminary outcomes of these multi-stakeholder consultations will be presented in time for the next High-Level Dialogue on Financing for Development. In this regard, the Financing for Development Office is directly coordinating multi-stakeholder consultation in the areas of building an inclusive financial sector for development and sovereign debt for sustainable development. The Office has also engaged the World Economic Forum to conduct a series of multi-stakeholder consultations on understanding how public-private partnerships can improve the reach and the effectiveness of development assistance and on improving the climate for private investment through leveraging multilateral development banks and aid agencies to catalyse private investment and through bringing financial governance capacity-building to scale. Similarly, multi-stakeholder consultations coordinated by the New Rules for Global Finance Coalition on the topic of improving process and outcome in the global financial architecture reform have also been included in the programme.

72. The regional commissions have been actively engaged, in cooperation with other regional stakeholders including regional development banks, in the implementation of the Monterrey Consensus. The Economic Commission for

Europe organized a ministerial-level policy seminar on competitiveness and growth as part of the fifty-ninth session of the Commission in February 2004. The Economic and Social Commission for Asia and the Pacific implemented a project on capacity-building for external debt management in the era of rapid globalization, with funding support from the Republic of Korea, involving a regional workshop held in July 2004, to be followed by four national workshops. Innovative mechanisms for promoting public-private alliances in order to improve regional infrastructure were considered at the thirtieth session of the Economic Commission for Latin America and the Caribbean (ECLAC). The meeting of the African Ministers of Finance and Economic Development and Planning, organized by the Economic Commission for Africa in May 2004, considered the ECA/OECD joint work on mutual review of development effectiveness and focused on aid quality and quantity, coherence of policies and debt relief, and trade within the framework of the Millennium Development Goals, as well as on operationalizing the principle of mutual accountability. The Economic and Social Commission for Western Asia (ESCWA) addressed the issues of debt and investment, including surveys of enterprises with FDI participation in Bahrain, Oman and Saudi Arabia, and establishing FDI databases in 5 out of 13 ESCWA countries.[46]

73. The Financing for Development Office of the Department of Economic and Social Affairs has also organized a series of informal discussions and special events, as called for in resolution 58/230. For example, a high-level panel on innovative approaches to financing for development was organized on 15 June 2004 at the UNCTAD XI Conference in Sao Paulo. The event was attended by the President of Brazil and cabinet ministers from several countries, as well as the Secretary-General of the United Nations and the Secretary-General of UNCTAD, and was moderated by the Under-Secretary-General for Economic and Social Affairs. As part of a joint ECLAC/Department of Economic and Social Affairs project, a high-level seminar on the theme "Regional financial arrangements" was held in New York on 14 and 15 July 2004 with the support of the Ford Foundation, in conjunction with the substantive session of the Economic and Social Council.

74. Following the first High-Level Dialogue on Financing for Development, the General Assembly, in its resolution 58/230, decided to hold the 2005 High-Level Dialogue at the ministerial level. A decision on the precise timing of the Dialogue should be taken at the Assembly's fifty-ninth session, which will take into account the major event it has also scheduled for the commencement of its sixtieth session. A comprehensive report on the state of implementation of the outcome of the International Conference on Financing for Development will be prepared by the Secretariat to contribute to discussions in 2005. In that context, it will be relevant to keep in mind paragraph 73 of the Monterrey Consensus, which requires that the modalities of "a follow-up international conference to review the implementation of the Monterrey Consensus" be decided upon not later than 2005.

Notes

[1] See World Bank, *Global Monitoring Report 2004*, and Economic Commission for Africa, *African Governance Report 2004* (forthcoming).

[2] See A/59/203, paras. 28-31.

[3] See fifth meeting of the African Peer Review Mechanism Panel of Eminent Persons, Johannesburg, South Africa, 29 and 30 April 2004, communiqué (www.nepad.org).

[4] World Bank, *World Development Report 2004*.

[5] In its publication *Global Employment Trends for Youth 2004*, the International Labour Organization notes that while youth represent 25 per cent of the working age population between the ages of 15 and 64, in 2003 they made up as much as 47 per cent of the total 186 million unemployed and that young people represent some 130 million of the world's 550 million working poor who work but are unable to lift themselves and their families above the equivalent of the US$ 1 per day poverty line.

[6] For a detailed discussion, see World Commission on the Social Dimension of Globalization. *A Fair Globalization: Creating Opportunities for All* (ILO, 2004).

[7] See TD/L.410, paras. 8 and 24.

[8] International Bank for Reconstruction and Development/World Bank, *Doing Business in 2004: Understanding Regulation* (Washington, D.C.).

[9] See http://www.undp.org/cpsd.

[10] World Bank, *Global Monitoring Report 2004*, part II, chap. 4.

[11] See International Monetary Fund, *Global Financial Stability Report* (March 2004).

[12] See World Bank, *Global Development Finance 2003*, chap. 7, "Workers' remittances: an important and stable source of external development finance", and Devesh Kapur, "Remittances: the new development mantra?", G-24 discussion paper, No. 29 (UNCTAD/GDS/MDPB/G24/2004/5).

[13] For a detailed presentation of net resources transfers, see A/59/218, table 1.

[14] Ibid. Each bilateral investment treaty concluded in the world involves either a developing country or a Central and Eastern European country as a partner, while some four-fifths of double taxation treaties concluded in the world involve either one of these countries as a partner.

[15] See World Bank and International Monetary Fund *Global Monitoring Report 2004: Policies and Actions for Achieving the Millennium Development Goals and Related Outcomes background paper* (Washington D.C., April 16, 2004) (DC2004-0006/Add.1).

[16] This was emphasized at the recently concluded eleventh session of the United Nations Conference on Trade and Development (UNCTAD XI) in Sao Paulo; see TD/410.

[17] See "Preliminary report on the Global Compact Leaders Summit" (http://www.unglobalcompact.org).

[18] Cancún Ministerial Statement (WT/MIN (03)/W/24).

[19] See World Trade Organization, Doha Work Programme: decision adopted by the General Council on 1 August 2004 (WT/L/579).

[20] World Trade Organization, "European Communities — Conditions for the Granting of Tariff Preferences to Developing Countries" (WT/DS246/R and WT/DS246/AB/R).

[21] World Trade Organization, "United States — Subsidies on Upland Cotton — Communication from the Chairman of the Panel" (complaint by Brazil) (WT/DS267/16).

[22] WTO document WT/DS266.

[23] World Trade Organization, "United States — Final countervailing duty determination with respect to certain softwood lumber from Canada [and the United States Laws] (WT/DS257/AB/R).

[24] Some developing countries have requested an emergency meeting of the WTO Council on Trade in Goods to address the issue; see WTO press release 384 of 4 August 2004.

[25] WTO, "The changing landscape of RTAs" (Geneva, 14 November 2003).

[26] Organization for Economic Cooperation and Development, Development Assistance Committee, "Modest increase in development aid in 2003" (http://www.oecd.org).

[27] Ibid., p. 2. The report states that member States are expected to exceed their target to collectively increase average ODA from 0.33 per cent of GNI to 0.39 per cent of GNI in 2006 and reach 0.42 per cent; a number of States have indicated targets for achieving 0.7 per cent. In Monterrey, the United States also pledged to raise ODA by $5 billion a year by 2006, or a 50 per cent increase in core development assistance, through the establishment of the Millennium Challenge Account (MCA). In January 2004, Congress signed into law the Millennium Challenge Corporation (MCC), and in May it selected 16 countries as potential MCA recipients: Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka and Vanuatu.

[28] The Roundtable reaffirmed that countries must manage their resources for development results, and development agencies must give the highest priority to strengthening recipient countries' capacity; see World Bank, DevNews Media Center, "Results focus sharpened", 12 February 2004.

[29] See Commission of the European Communities, "Communication from the Commission to the Council and the European Parliament: Translating the Monterrey Consensus into practice: the contribution by the European Union" (Brussels, 5 March 2004).

[30] The United Kingdom also launched a Commission for Africa to study how to improve sub-Saharan prospects of meeting the Millennium Development Goals. See also www.dfid.gov.uk/news/files/pr_africacomm2July04.asp.

[31] World Bank and IMF, Development Committee communiqué (Washington, D.C., 25 April 2004), para. 7.

[32] For more detailed information, see A/59/219.

[33] In 2004, Ethiopia, Ghana, Guyana, Nicaragua, Senegal and the Niger reached the completion point.

[34] At least 15 low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative had debt-to-export ratios during 2000-2002 that exceeded 150 per cent; i.e., the ratio that is considered as sustainable under the Initiative; see A/59/219.

[35] The Evian approach was agreed in October 2003 by creditor countries usually taking part in Paris Club negotiations for application to non-HIPC countries. (http://www.clubdeparis.org/en/presentation); see also IMF, "Progress report to the International Monetary and Financial Committee on Crisis Resolution", sect. V (20 April 2004).

[36] Kenya, the first country to be assessed under the Evian approach, only received a flow rescheduling under Houston terms because its external debt was considered to be sustainable; consideration of Georgia has been agreed in principle, and Argentina and Nigeria are also expected to be treated under the approach.

[37] See speech by the Chancellor of the Exchequer at a seminar on the theme "Poverty and globalization: financing for development", Pontifical Council for Justice and Peace, Vatican City, 9 July 2004.

[38] IMF and the International Development Association, *Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications* (Washington, D.C., 2004).

[39] International Monetary Fund press release No. 04/84 (24 April 2004); and statement of the Group of Seven (G-7) finance ministers and central bank governors (Boca Raton, Florida, United States, 7 February 2004) (www.g7.utoronto.ca/finance).

[40] International Monetary Fund, progress report to the International Monetary and Financial Committee on crisis resolution (Washington, D.C., 20 April 2004).

[41] Many of these proposals are discussed in an IMF discussion paper entitled "Sovereign debt structure for crisis prevention" (2 July 2004).

[42] See Bank for International Settlements, *Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework*, Basel Committee Publications, No. 107 (June 2004).

[43] See *World Economic and Social Survey, 2003*, part II (United Nations publication, Sales No. E.03.II.C.1).

[44] Bangladesh has subsequently been given similar treatment.

[45] See outcomes of the seventeenth summit of the Rio Group, Cusco Consensus, Cusco, Peru, 23 and 24 May 2003, and the thirteenth Ibero-American summit, Santa Cruz de la Sierra, Bolivia, 14 and 15 November 2003.

[46] For more information on current and planned follow-up activities of the regional commissions, see www.un.org/esa/ffd/ffdregionalcommissions.htm.

Table 1
Net private financial flows to developing economies and economies in transition, 1993-2003

(Billions of US dollars)	*Average 1993-1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Developing economies							
Total,	163.1	47.2	66.2	30.4	2.7	20.5	92.5
of which:							
Net direct investment	87.8	130.2	145.7	149.8	164.1	112.8	102.6
Net portfolio investment	68.0	26.4	68.2	9.6	-90.8	-91.7	-75.8
Other net investment[a]	7.3	-109.5	-147.7	-129.1	-70.7	-0.6	65.7
Economies in transition							
Total,	13.5	30.2	20.4	11.8	17.9	26.5	38.7
of which:							
Net direct investment	11.2	22.7	25.5	25.2	24.9	26.5	16.7
Net portfolio investment	3.0	12.0	-2.2	-3.4	-4.9	-6.9	-11.7
Other net investment[a]	-0.7	-4.6	-2.9	-9.9	-2.2	6.9	33.7

Source: *World Economic and Social Survey 2004* (United Nations publication, Sales No. E.04.II.C.1).
[a] Including short-and long-term bank lending; owing to data limitations, may include some official flows.

Table 2
DAC members' ODA prospects for 2006: latest projections

	ODA in 2002	*ODA/GNI in 2002*	*Commitment/ announcement/ assumption*	*Year to be attained*	*Net ODA in 2006*	*ODA/GNI in 2006*	*Real change in ODA in 2006 compared with 2002 (at 2002 prices and exchange rates)*[a]
	millions of US$	*(percentage)*	*(percentage)*		*(millions of 2002 US$)*	*(percentage)*	*(percentage)*
Austria	520	0.26	0.33	2006	728	0.33	40
Belgium	1 072	0.43	0.7 (0.46 by 2006)	2010	1 234	0.46	15
Denmark	1 643	0.96	>0.7	n.a.	1 531	0.83	-7
Finland	462	0.35	0.44	2007	598	0.42	29
France[b]	5 486	0.38	0.5 (0.7 by 2012)	2007	7 378	0.47	34
Germany	5 324	0.27	0.33	2006	7 099	0.33	33
Greece	276	0.21	0.33	2006	515	0.33	86
Ireland[b]	398	0.40	0.70	2007	671	0.63	69
Italy	2 332	0.20	0.33	2006	4 195	0.33	80
Luxembourg	147	0.77	1	2005	206	1.00	41
Netherlands	3 338	0.81	0.80	"Reached"	3 566	0.80	7
Portugal	323	0.27	0.33	2006	424	0.33	31
Spain	1 712	0.26	0.33	2006	2 328	0.33	36
Sweden	1 991	0.83	Long-term goal 1% (at least 0.87 in 2006)		2 247	0.87	13
United Kingdom	4 924	0.31	0.40	2005-2006	6 906	0.40	40
EU members, total	**29 949**	**0.35**	**0.39**	**2006**	**39 627**	**0.42**	**32**
Australia[c]	989	0.26	0.26	2003-2004	1 089	0.26	10
Canada	2 006	0.28	8% annual increase to 2010		2 730	0.34	36
Japan	9 283	0.23	1998-2002 av. level ($10.5 bn)	2006	10 500	0.26	13
New Zealand	122	0.22	Future level is under review		154	0.26	27
Norway	1 696	0.89	1	2005	2 067	1.00	22
Switzerland[b]	939	0.32	0.4	2010	1 143	0.36	22
United States[d]	13 290	0.13	See footnote[d]		19 539	0.17	47
DAC members, total	**58 274**	**0.23**			**76 849**	**0.29**	**32**

Source: Organization for Economic Cooperation and Development, Development Cooperation Report, 2003, *DAC Journal*, vol. 5, No. 1 (2004).

[a] Assumes average real growth in GNI of 2 per cent (3 per cent for Canada, 4 per cent for Greece and zero for Japan) from 2002 to 2006.

[b] ODA/GNI ratio for 2006 interpolated between 2002 and year target scheduled to be attained.

[c] Estimated ODA/GNI 0.26 per cent in 2003/04; as aid volume determined in annual budgets, assumes same ratio in forward years.

[d] Assumes, for 2006, additional US$ 5 billion from the Millennium Challenge Account, US$ 2 billion from the Emergency Plan for AIDS Relief, phased spending from Iraq and Afghanistan reconstruction supplements and 2 per cent per annum inflation in the United States of America to deflate from 2006 to 2002 prices.